

CITY OF FEDERAL WAY
King County, Washington
January 1, 1993 Through December 31, 1993

Schedule Of Federal Findings

1. The City Should Establish Administrative Controls To Ensure Compliance With Federal Requirements

The city was out of compliance with certain federal regulations in the administration of the Housing and Urban Development (HUD) Community Development Block Grant (CDBG) funded Senior/Community Center project.

During 1993, the city purchased the Klahanee Lake Senior/Community Center and charged \$319,200 of the cost to the CDBG fund. The city then awarded a renovation contract for the center. Subsequently the city obtained HUD's approval to reprogram the grant moneys from the center's purchase to its renovation.

Because the renovation contract was awarded and construction began before the federal funding was reprogrammed, the city did not comply with certain construction related federal requirements.

The renovation contract did not contain the following provisions required by Title 24, Subtitle A, Section 85.36(i), of the *Code of Federal Regulations*:

- Compliance with Copeland Anti-Kickback Act
- Compliance with Davis-Bacon Act
- Compliance with Hours and Safety Standards Act
- Compliance with Clean Air Act & EPA Regulations
- Compliance with Energy Policy and Conservation Act

Further, with respect to the Davis-Bacon Act, we were unable to determine whether the city obtained certified contractor payrolls for two subcontractors or whether site interviews were conducted.

Not complying with federal requirements places the city at risk of losing future federal funding.

We recommend city officials establish administrative controls to ensure:

- a. Consistency in the proposed use of CDBG funds.
- b. Inclusion of all the required contract provisions as per federal requirements.
- c. Receipt and review of certified contractor and subcontractor payrolls and performance of site interviews for all projects subject to Davis-Bacon requirements.

2. Administrative Controls Over The CDBG Substantial Housing Rehabilitation Loan Program Should Be Improved

Our review of the CDBG Substantial Housing Rehabilitation Loan program disclosed the following administrative control weaknesses:

- a. Administrative controls in place during 1993 were not adequate to ensure that total payments made to or on behalf of loan program participants were within authorized amounts. Specifically:
 - (1) The city did not maintain records establishing the total amount paid to or on behalf of a given loan participant.
 - (2) The city did not assign vendor numbers to five loan program contractors. As a result, we were unable to effectively determine total payments paid to these contractors.
 - (3) The city did not segregate activity between the Substantial Housing Rehabilitation Loan and the Emergency Repair programs within the general ledger system. As a result, we were unable to effectively reconcile 1993 loan program activity per the promissory notes and related records to the general ledger system.
- b. The Secured Promissory Notes and Secured Promissory Note Modification Agreements were not signed by a city representative.
- c. The city did not receive appropriate loan documentation related to the 1992 CDBG Housing Rehabilitation Loan and Emergency Repair programs from its subrecipient until February 1994.
- d. As of May 26, 1994, the city had not applied 1993 Substantial Housing Loan program repayments (\$11,688 on loan FW-92-11 and \$564 on loan FW-91-B1) against program expenditures in violation of Title 24, Subpart C, Section 570.504(b), *Code of Federal Regulations*. This program income was also excluded from the quarterly Federal Cash Transactions Reports.

These administrative control weaknesses increase the likelihood that errors or irregularities could occur and not be detected in a timely manner.

The failure to properly account for program income resulted in the misstatement of the Federal Cash Transactions Reports and questioned costs of \$12,252.

These conditions were primarily caused by a lack of understanding of federal requirements governing loan programs and, to a lesser extent, a delay in receipt of completed loan files from the city's subrecipient.

We recommend the city officials develop policies and procedures to ensure:

- a. Total payments made to or on behalf of Substantial Rehabilitation Loan program participants do not exceed amounts authorized.
- b. The Secured Promissory Notes and Secured Promissory Note Modification Agreements are signed by an appropriate city representative.
- c. Completed loan files are provided to the city in a timely manner.

- d. Program income is properly identified and accounted for in accordance with federal requirements.